SAN FRANCISCO

California

An Economic Overview

Presented by Mayor Dianne Feinstein

October, 1986

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Office of the Mayor
San Francisco

DIANNE FEINSTEIN

Often called "Everybody's Favorite City," San Francisco's beautifully scenic setting is well known around the globe. Its cable cars, its bridges, its picturesque streets and wondrous marine views are immediately recognized everywhere.

But there is another San Francisco, less well known but equally attractive to those of us who know the City best. It is the San Francisco which is the hub of America's fourth largest metropolitan area -- the economic dynamo offering every kind of commercial activity and services, and ready access to 12 of the largest United States markets.

Thoughout its colorful history, San Francisco has been an international center. Its financial, mercantile and maritime business leadership has reached out to every part of the world. It has more foreign consulates than any American city except New York. Its population is richly diverse -- with roots increasingly in the Pacific Rim.

To portray this more businesslike San Francisco, and to answer your questions about the wide variety of commercial activities and services the City offers, I present this overview of San Francisco's economy.

Dianne Feinstein

DIANNE FEINSTEIN
Mayor of San Francisco

AN OVERVIEW OF SAN FRANCISCO'S ECONOMY

SUBMITTED BY MAYOR DIANNE FEINSTEIN

October 1986

Introduction

San Francisco is well known for one of the most dynamic economies in the United States. The health of our economy is the result of over 100 years of continuous growth, adjustment and leadership. This report looks at future events that are expected to impact the city's economy and provides the reader with information about its economic status. To avoid the pitfalls of focusing exclusively on a single issue, a context of overall economic, business and population trends is provided. The result is a description of the City's economy, a profile of the major trends affecting the San Francisco economy and the anticipated impacts projected over the next few years.

The Growth of San Francisco's Economy

San Francisco has served as the hub of the Bay Area's economy since the Gold Rush days. As gold fever subsided, the City built a diversified economy which has continued through today. This diversified economy continues to affect the kind of industries, the number of jobs, and the overall economic well-being of the region and the City.

Today the City's economy is strong, especially in the areas of finance, insurance, real estate, communications, transportation, tourism, public utilities, services, and retail trade. The national economy has continued to grow in areas where San Francisco has economic strength, thus reinforcing the City's economic growth and diversity. Increases in the Bay Area population have made it the fourth largest metropolitan area in the country, and it is estimated that by the year 1988, twelve of the top fifty US metropolitan markets will be within a 700 mile radius of San Francisco, most notably Seattle, Portland, Sacramento, Los Angeles and San Diego.

San Francisco's economy has remained strong during this period of regional and national economic realignment, and the City's diverse economic base grows while retaining many of its traditional strengths. Most prominent among the City's industries are office activities, conventions and tourism, and retail trade. All are expected to continue to flourish. <u>Recent figures project a slow-down in outmigration and business relocations.</u> (Table V)

San Francisco is also a regional center for state and federal government offices, and an international center for arts and culture. Overall, it has been San Francisco's healthy economic diversity that has promoted its stability and enabled it to weather economic changes that have caused problems in other major cities.

Table I

KEY SF ECONOMIC INDICATORS

Indicator	1978	1986	% Change
Population	677,700	741,200	9.37%
Convention Attendance*	734,000	1,070,000	45.78%
Imports & Exports-Current (Mil)**	$12,466	$28,802	131.04%
Imports & Exports-Constant (Mil)**	$12,466	$17,830	43.03%
Assessed Value-Billions	$15.01	$31.33	108.73%
Taxable Sales-Current (Mil)*	$3,970	$6,819	71.76%
Taxable Sales-Constant (Mil)*	$3,970	$4,135	4.16%
Unemployment Rate	6.73%	5.50%	-
Employment	513,200	566,500	10.39%

* Latest data was from 1985.
**Latest data was from 1984.

Table II

STATE AND NATIONAL ECONOMIC INDICATORS

Indicator	1983	1984	1985	1986
United States				
CPI Change	3.2%	4.4%	5.1%	2.1%
Personal Income (in billions)	$2,744	$3,016	$3,270	$3,460
% Growth - Personal Income	6.2%	9.9%	8.4%	5.8%
Real GNP	3.7%	7.4%	3.2%	3.3%
Unemployment Rate	9.4%	7.1%	6.8%	6.7%
Prime Interest Rate	10.8%	12.5%	11.0%	7.5%
Housing Starts (in millions)	1.70	1.79	1.40	1.85
Labor Force (in millions)	90.1	94.1	96.8	100.3
California				
Personal Income (in billions)	$333.3	$363.6	$394.0	$418.6
% Growth - Personal Income	7.3%	9.1%	8.4%	6.2%
Unemployment Rate	9.7%	7.6%	7.2%	6.7%
Housing Starts (in thousands)	163.1	231.1	174.5	245.35
Labor Force (in thousands)	9,928	10,386	10,793	11,133

Sources: Chase Econometrics, California Employment Development Department, U.S. Bureau of Labor Statistics and SF Assessor's Office

Employment

A key measure of a City's economic health is the City's unemployment rate. San Francisco's unemployment rate is at 5.5% and has been consistently below the national average, currently 6.7%, and the state average, currently 6.7%.

Employment in San Francisco has gone from approximately 513,200 employees in 1978 to 566,500 in 1985. This increase reverses what had been an ongoing outmigration of employment from the City which started in 1981. San Francisco, like the U.S. economy, is increasingly service-dominated. By 1980, more persons were engaged in trading goods in the United States than in manufacturing them. Between 1981-85, service and trade sectors accounted for nearly all of the nation's employment increase. San Francisco's employment mirrors these facts. Recent employment data show the following trends in selected sectors (See Table III & Table IV on the following page.)

Over the past five years, employment patterns in San Francisco have reflected an economic evolution that has resulted in a changing mix, size and number of business establishments. In FY '80, there were 24,000 establishments doing business in San Francisco, and by 1983 this had increased by 3,000 establishments to 27,000. Available statistics indicate that businesses with 100 or more employees decreased about 10% during this period, while firms from 1 to 100 employees increased on the average of over 8%, and firms of 1 to 4 employees increased by 20%, from 13,000 to 15,000 establishments. (Table IV)

While these data indicate a strong trend in the growth of small entrepeneurial businesses, at the same time, the City continues to support an important base of large corporations.

San Francisco also continues its tradition as a testing ground for new ideas. It is the center for venture capital in northern California and Silicon Valley, and the University of California Medical Center in San Francisco is the world leader in biomedical research and technology. A major film production studio is planning a significant expansion, showcasing the City's growing film and video industry. And growing firms such as Esprit, Banana Republic and Fritzi have created thousands of new jobs in the apparel and sportswear field.

Table III

EMPLOYMENT

Indicator	1978	1986	% Change
Unemployment Rate	6.73%	5.50%	-
Employment (Nonagricultural)	513,200	566,500	10.39%
EMPLOYMENT IN VARIOUS SELECTED SECTORS			
Manufacturing	47,800	41,900	-12.34%
Non-Manufacturing	465,400	524,600	12.72%
Wholesale/Retail Trade	100,500	116,200	15.62%
Services	137,900	178,900	29.73%
Government	89,100	90,500	1.57%
Construction	11,000	14,300	30.00%
Finance/Insurance/Real Estate	77,900	79,200	1.67%
Transportation/Public Utilities	48,200	44,300	-8.09%

Sources: Chase Econometrics and California Employment Development Department

Table IV

NUMBER OF ESTABLISHMENTS BY FIRM SIZE IN SAN FRANCISCO

EMPLOYMENT SIZE	1980	1981	1982	1983	% Change 1980-83
	NUMBER OF ESTABLISHMENTS				
1000 or more employees	50	44	38	44	-12%
500-999 employees	59	61	57	61	3%
250-499 employees	136	189	171	113	-17%
100-249 employees	464	430	413	421	-9%
50-99 employees	737	761	756	755	2%
20-49 employees	2,159	2,189	2,198	2,159	0%
10-19 employees	3,163	3,145	3,108	3,265	3%
5-9 employees	4,489	4,646	4,530	4,830	8%
1-4 employees	13,114	13,366	12,991	15,726	20%
TOTAL ESTABLISHMENTS	24,371	24,831	24,262	27,374	12%

Source: "County Business Patterns", 1980; 1981; 1982; 1983, Bureau of the Census, U.S. Department of Commerce and ABAG

San Francisco County

Table V

Wage and Salary Employment by Industry*
December 1984 - December 1987
(Amounts in Thousands)

Industry	---December--- 1984	1985	--Forecast-- 1986	1987	---Percent Change--- 84-85	85-86	86-87
Total, all industries	562.4	565.8	566.9	570.8	0.6%	0.2%	0.7%
Agricultural employment	0.4	0.4	0.4	0.4	0.0%	0.0%	0.0%
Nonagricultural employment	562.0	565.4	566.5	570.4	0.6%	0.2%	0.7%
Mining	2.2	1.2	1.2	1.2	-45.5%	0.0%	0.0%
Construction	12.6	14.3	14.3	13.8	13.5%	0.0%	-3.5%
Manufacturing	43.3	42.4	41.9	41.7	-2.1%	-1.2%	-0.5%
Nondurable goods	33.5	32.9	32.5	32.4	-1.8%	-1.2%	-0.3%
Food & kindred products	7.2	7.2	6.9	6.7	0.0%	-4.2%	-2.9%
Apparel	11.4	12.2	12.5	12.5	7.0%	2.5%	0.0%
Printing & publishing	8.7	8.5	8.4	8.4	-2.3%	-1.2%	0.0%
Other nondurable goods	6.2	5.0	4.7	4.8	-19.4%	-6.0%	2.1%
Durable goods	9.8	9.5	9.4	9.3	-3.1%	-1.1%	-1.1%
Primary & fabricated metals	2.3	2.2	2.1	2.0	-4.3%	-4.5%	-4.8%
Electrical & nonelect. mach.	2.7	2.6	2.6	2.6	-3.7%	0.0%	0.0%
Other durable goods	4.8	4.7	4.7	4.7	-2.1%	0.0%	0.0%
Transportation & public utilities	49.9	46.5	44.3	43.9	-6.8%	-4.7%	-0.9%
Transportation	22.3	21.2	20.9	20.6	-4.9%	-1.4%	-1.4%
Communication & utilities	27.6	25.3	23.4	23.3	-8.3%	-7.5%	-0.4%
Wholesale trade	35.7	35.5	35.7	35.7	-0.6%	0.6%	0.0%
Retail trade	76.2	73.4	80.5	81.9	2.9%	2.7%	1.7%
Department stores	8.8	8.6	8.7	8.8	-2.3%	1.2%	1.1%
Food stores	7.6	7.8	8.1	8.3	2.6%	3.8%	2.5%
Auto dealers & service stations	3.9	4.0	4.0	4.0	2.6%	0.0%	0.0%
Apparel & accessory stores	8.5	8.9	9.3	9.5	4.7%	4.5%	2.2%
Restaurants & bars	31.0	32.3	33.1	33.5	4.2%	2.5%	1.2%
Other retail trade	16.4	16.8	17.3	17.8	2.4%	3.0%	2.9%
Finance, insurance, & real estate	83.8	82.3	79.2	78.8	-1.8%	-3.8%	-0.5%
Finance	52.6	51.3	48.4	48.1	-2.5%	-5.7%	-0.6%
Insurance & real estate	31.2	31.0	30.8	30.7	-0.6%	-0.6%	-0.3%
Services	170.2	174.5	178.9	182.6	2.5%	2.5%	2.1%
Hotels & motels	15.1	15.4	15.9	16.8	2.0%	3.2%	5.7%
Business services	45.9	47.9	50.1	52.0	4.4%	4.6%	3.8%
Auto & miscellaneous repair	6.6	7.0	7.1	7.2	6.1%	1.4%	1.4%
Health services	23.5	24.2	24.5	24.7	3.0%	1.2%	0.8%
Legal services	13.7	14.7	15.5	16.0	7.3%	5.4%	3.2%
Social serv./membershp. orgs.	18.7	18.6	18.7	18.7	-0.5%	0.5%	0.0%
Other services	46.7	46.7	47.1	47.2	0.0%	0.9%	0.2%
Government**	88.1	90.3	90.5	90.8	2.5%	0.2%	0.3%
Federal	29.7	31.3	31.5	31.6	5.4%	0.6%	0.3%
State & local	58.4	59.0	59.0	59.2	1.0%	0.0%	0.3%

March 1985 benchmark

*Employment is by place of work and does not include persons involved in labor-management trade disputes.

**Includes all civilian government employees regardless of activity in which engaged.

California Employment Development Department
Employment Data and Research, San Francisco
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SECTORS OF THE CITY'S ECONOMY

The Office Industries

San Francisco has long been the office center of the Bay Area. While containing only 14% of the region's population in 1970, the City contained more than 50% of the region's office space. In the subsequent 15 years, the City more than doubled its total available office space, even as offices began to grow in suburban centers.

The major users of offices are industries such as finance, real estate, insurance, and securities. While the City's economy has prospered, business relocations out of San Francisco have received a great deal of attention in the press. They reflect both regional conditions and national trends. Despite recent mergers and acquisitions, San Francisco continues to serve as a headquarters city, with larger firms keeping the executive staff in downtown offices while moving some mid-management, data maintenance and clerical operations to outlying communities. Examples of such moves are PacBell's satellite operations and Chevron's computer services division. Up to this point, this outmigration among larger firms, however, has been off-set by strong growth among smaller businesses and key business sectors.

Less significant in terms of job losses in San Francisco, but more publicized, has been the rapid growth of both population and jobs in southern California. Few significant moves of major businesses from San Francisco to Los Angeles have taken place in the last five years.

On the positive side, relocations are slowing down. The move of some offices, combined with substantial office construction in 1980-85, has created an office vacancy rate that now hovers near 17%, according to the City Planning Department. As vacancies increase, rents have fallen, and these reductions have been critical factors in keeping employers within the City. An example of this is the decision by PG&E, a major public utility, to cancel plans for a move to the suburbs in favor of growth in San Francisco.

Employers are also finding that the lack of amenities offered in suburban office parks has had a negative impact on staff morale, as has traffic congestion on roads not designed for heavy commuter loads. The possibility of reduced rents, combined with an efficient environment in which to do business, high accessibility, high quality public services, and a good labor market, encourages the retention and the location of businesses in San Francisco in the near future.

Manufacturing

Overall, manufacturing jobs have been declining nationwide, and the pattern has been reflected in San Francisco. In certain industries, however, real growth is occurring, particularly in small- and medium-sized firms: printing, small metal-working, construction, and apparel firms have been countering the trend and remaining and expanding within the City. In fact, recent studies suggest that job growth in these areas has helped San Francsico to maintain a net annual increase in new jobs. The historic ties of these firms to the City, proximity to mass transit, freeways and airports, along with the proximity to customers, are major factors influencing the resurgence of small light industrial firms in San Francisco.

Retail Sales

Retail sales have experienced real growth in San Francisco. Taxable sales from 1978 through 1985 increased by over 71%, while the cost of living increased by 65%.

San Francisco's retail economy remains strong. San Francisco has become a national as well as a regional retail center. Growth in retail sales has come not only from major reinvestments by the City's traditional stores, such as Macy's, The Emporium, and Saks Fifth Avenue, but also by "economy" stores, such as Marshall's and Home Furnishings 2000, and "top of the line" stores such as Nieman-Marcus and Nordstrom's. Today, Macy's does its second largest gross in the nation in San Francisco. The quality of the City's merchandise and service are well known, and people from around the world make a point of shopping in the City and at Union Square.

Neighborhood retail sales in San Francisco are also on the rise, a majority of sales activity occurring outside of the downtown San Francisco area, where space is at a premium. Stonestown, for example, is establishing a major rehabilitation effort and bringing in Nordstrom's. Fifth and Market, next to the Emporium, has changed its plans from commercial offices to a major retail center, with Nordstrom's again as an anchor tenant. These projects, and the Yerba Buena retail area, should result in a major expansion into the South-of-Market area, which bodes well for a healthy increase in consumer activities.

Table VI

TAXABLE SALES
(All Amounts In Millions)

Indicator	1978	1985	% Change
Total Current Dollars	3,970	6,819	71.76%
Total Constant Dollars	3,970	4,135	4.16%
SALES IN DIFFERENT SECTORS (Current Dollars)			
Apparel	256	424	65.63%
Food Stores	159	324	103.77%
General Merchandise	299	461	54.18%
Drug Stores	60	110	83.33%
Package Liquor	66	60	-9.09%
Eating & Drinking Places	510	911	78.63%
Furnishings & Appliances	123	219	78.05%
Building Materials	92	159	76.09%
Automotive	211	339	60.66%
Service Stations	133	227	70.68%
Other Retail	592	897	51.52%
Total Retail Stores	2,501	4,134	65.29%
Business & Personal Services	271	495	82.66%
All Other Sources	1,198	2,190	82.80%
SALES IN DIFFERENT SECTORS (Constant Dollars)			
Apparel	256	257	0.39%
Food Stores	159	196	23.27%
General Merchandise	299	280	-6.35%
Drug Stores	60	67	11.66%
Package Liquor	66	36	-45.45%
Eating & Drinking Places	510	552	8.23%
Furnishings & Appliances	123	133	8.13%
Building Materials	92	98	6.52%
Automotive	211	206	-2.37%
Service Stations	133	138	3.76%
Other Retail	592	544	-8.11%
Total Retail Stores	2,501	2,507	-0.24%
Business & Personal Services	271	300	10.76%
All Other Sources	1,198	1,328	10.85%

Sources: Chase Econometrics and State Board of Equalization

SAN FRANCISCO VISITOR STATISTICS SUMMARY: 1984-1985

COMBINED TOURISM ACTIVITY (Convention & Non-Convention)

	1984	1985	CHANGE
Total Visitor & Convention Participants Staying in San Francisco Hotels & Motels	2,569,000	2,649,000	+ 3%
Total Visitor & Convention Expenditures	$ 1,367 million	$ 1,503 million	+ 10%
CONVENTION ACTIVITY:			
Number of Conventions	666	639	- 4%
Convention Registrants	999,000	1,070,000	+ 7%
Convention Participants Staying in San Francisco Hotels & Motels	365,000	409,000	+ 12%
Convention & Related Expenditures	$ 452 million	$ 514 million	+ 14%
NON-CONVENTION ACTIVITY:			
Number of Non-Convention Visitors Staying In San Francisco Hotels & Motels	2,204,000	2,240,000	+ 2%
Non-Convention Visitor Expenditures	$ 915 million	$ 989 million	+ 8%

Note: These statistics are based on the latest available data and estimates. Persons interested in comparable data for prior years should request a copy of the report The San Francisco Visitors Industry: 1978-1985 by Dirk J. Wassenaar, Ph.D. from the San Francisco Convention and Visitors Bureau.

Prepared by: D. Wassenaar, 5-21-1986 REVISED

Rising Tourism and Conventions

The good health of the San Francisco tourism and convention business clearly points out that San Francisco remains a place favored by Americans and foreigners alike.

San Francisco is one of the most favored destinations in America for travelers from both this country and abroad. It is also one of America's most popular sites for conventions. An average convention delegate spends 4.5 days in San Francisco compared to the national average of 4 days. San Francisco conventioneers are also more likely to bring their spouses. They spend an average of $109 on retail items, as compared to the national average of $46. From 1984 to 1985, the number of visitor and convention participants staying in San Francisco hotels increased from 2.5 million to 2.6 million - a 3% increase. Total convention and visitor expenditures increased during the same period from $1.3 billion to $1.5 billion - a 10% increase. While the total number of conventions decreased slightly by 4% in 1985, total convention registrants increased to over 1 million - a 7% increase. Convention related expenditures increased by 14% from $452 million in 1984 to $515 million in 1985. Growth in the convention and tourism industry has meant more employment opportunities, particularly for many of San Francisco's minority residents. (These trends are summarized on the previous page.)

The success of San Francisco's convention business has been affected by recent changes in professional equipment merchandising at conventions, which has caused a tremendous increase in demand for exhibition space. The City's major convention facility had adequate space when it opened only 5 years ago, but sales practices have changed; equipment once sold from showrooms or door to door is now sold on convention hall floors. San Francisco, like other convention cities, is faced with the prospect of needing extensive new exhibition space just to satisfy present convention customers and remain competitive with other convention destinations. In response, the City is prepared to double the amount of additional meeting room and exhibit space.

International Trade

International trade represents on of the greatest potentials for growth for San Francisco and the Bay Area. While some businesses involved in international trade have suffered temporary losses due to the high cost of the dollar and, more recently, losses from the drop in the price of oil, <u>the amount of imports and exports</u> (a measure of international trade) <u>has vastly outpaced inflation in San Francisco.</u> Between 1978 and 1984, total growth in international trade increased from $12.5 billion in 1978 to $28.8 billion, more than 130%, or <u>real growth of 43% when adjusted for inflation.</u> <u>Pacific Rim nations make up 70% of California's international trade, and California is Japan's second leading trading partner, next to the United States.</u> San Francisco benefits from both import and export trade: In 1984 the San Francisco customs district handled over $16.4 billion in imports and $12.4 billion in exports.

International Trade Through
California's Customs Districts

(Dollars In Millions)

	1981	1982	1983	1984	Percent Change 1983-84
SAN FRANCISCO (ONLY)					
Imports	$8,691	9,507	11,278	16,428	45.7%
Exports	11,253	11,434	11,314	12,374	9.4%
TOTAL	19,944	20,941	22,592	28,802	27.5%
CALIFORNIA (TOTAL)					
Imports	$31,690	32,583	37,944	49,270	29.8%
Exports	29,990	29,120	29,379	32,203	9.6%
TOTAL	61,680	61,703	67,323	81,473	21.0%

Source: US Dept. of Commerce; SPB Internation Trade Database
Prepared By: Economics Dept., Security Pacific Bank

Transportation

San Francisco has an extensive transportation network that supports both businesses and individuals. World famous for its local network of busses, trolleys, cable cars, and Metro, the City is the focus of an extensive regional commuter system that includes Bay Area Rapid Transit (BART), SamTrans bus lines, the Golden Gate District's bus and ferry service, AC Transit bus, Greyhound bus, and Caltrain service on the peninsula.

San Francisco is also served by six interstate highways, three rail lines and numerous trucking lines which operate in and out of San Francisco, providing regular, dependable, shipping services. All of these transportation services support the international, national and local needs of business and citizens.

The Port of San Francisco is one of the West Coast's finest natural deep water ports. The port offers full services, including general cargo, container, and barge services. The Port is experiencing a healthy revival and is viewed as a major competitor in West Coast shipping markets. The revival has been fueled by more efficient and modern port equipment and the development of Port properties.

The Port is currently the only California port with an intermodal container transfer facility that permits direct transfer of containers between ship and rail cars at the terminal.

In the period 1975-1984, one of the measures of the Port's success is the increase in rental income -- up nearly 115%. Other revenue improvements include an 88% increase in wharfage, dockage and demurrage, an increase of nearly 53% in commercial power, and an increase in total operating revenues of more than 103%. During that same period, property rental contributed an average of 60% of operating revenues, ranging from a low of just over 50% for 1979 to over 67% for 1984. This change is the result of increased emphasis on commercial development and upgrading of rental rates to reflect current market conditions.

Another measure of the Port's good health is a decrease in the cost of operating expenses as a percentage of operating revenues, which declined from 81.6% in 1976 to 66.6% in 1984. This decrease was possible in the face of operating expenses that increased 65% because operating revenues increased more than 103%. In 1983/84, the largest revenue tenants were:

1. Todd Shipyards	$1,890,669
2. Evergreen Marine Corporation	1,367,037
3. Lykes Bros. Steamship Co, Inc.	1,227,229
4. Pier 39 Associates	922,840
5. Southwest Marine of San Francisco	673,446
6. Inter-Pacific Shipping	668,778
7. Transpacific Trans. Co	668,216
8. George L. Burger	632,772
9. San Francisco Welding	518,883
10. Delta Steamship Lines, Inc.	490,675
	$9,060,545

San Francisco International Airport is the seventh busiest airport in the United States and eighth busiest in the World. It has also won safety awards for each of the past eight years, making it among the world's safest airports. There are a total of 67 passenger, cargo, and commuter airlines servicing San Francisco International. The airport is completing extensive remodeling, which has resulted in a new North Terminal and a new International Terminal. A section of the new South Terminal has been opened, and remaining work should be completed by the end of 1987. These terminals more than quadruple the amount of space available for passengers and passenger services.

The Airport has become a national model with its successful minority business program. It also was the first to initiate an art program so that passenger time at the airport is enriched by arts and crafts from this country and abroad. Table 8 provides more detailed information on the Airport over the past 9 years.

SAN FRANCISCO INTERNATIONAL AIRPORT
OPERATING STATISTICS
FISCAL YEAR 1976/77 -- FISCAL YEAR 1984/85

Fiscal Year	Total Enplanements	International Enplanements	Total Cargo (Metric Tons)	International Cargo (Metric Tons)	Scheduled A/C Arrivals & Departures	Concession Revenue (In Millions)	Concession Revenue Per Enplaned Passenger	Annual Service Payment to General Fund (In Millions)
1976/77	9,054,950	726,274	402,376	73,571	287,616	$14.2	$1.57	-0-
1977/78	10,786,906	940,260	447,971	93,041	292,991	$17.4	$1.61	-0-
1978/79	11,158,746	1,243,244	466,140	90,549	288,280	$20.6	$1.85	-0-
1979/80	11,295,341	1,312,832	432,442	78,350	286,708	$23.0	$2.04	-0-
1980/81	10,122,898	1,220,008	416,229	86,261	279,713	$26.6	$2.63	-0-
1981/82	10,235,698	1,083,253	415,200	88,479	258,592	$34.0	$3.32	$6.0
1982/83	10,851,552	1,024,631	393,220	117,250	284,859	$38.2	$3.52	$6.0
1983/84	11,978,138	1,165,276	470,707	143,268	335,751	$43.3	$3.61	$6.5
1984/85	12,387,599	1,281,757	466,333	157,486	341,652	$49.5	$4.00	$7.4

Population

San Francisco has a population of 741,200 as of 1986. The City's population is well-paid and well-educated. It is a growing population, with an increasing number of people in each household. The percentage of San Francisco's population within the ages of 25 to 44 is greater than any other county in the Bay Area.

San Francisco's per capita income ranks third among major US metropolitan areas. According to the 1980 census, per capita income was $9,593 compared with the national average of $7,298. San Francisco's population is also among the most educated in the nation: 28% of San Francisco's population has completed at least four years of college, compared with the statewide average of 20%.

Overall, San Francisco has been experiencing a turnaround in population growth, thus reversing a 20 year decline from 1960 to 1980. The City's population began to grow five years ago, and the most recent state report shows that it grew by 3.1% in just the last year. This growth has been matched with an increase in the size of households, which reverses a pattern seen in the 70's.

Approximately 92% of the increase in population from 1980-85 represents migration in to the City from abroad and within this country. Natural growth of the City's population accounted for the remaining 8% increase. Like the City's economy, San Francisco's population is increasingly diverse, with a racial mix that is 53% white, 21% asian, 12% black, 12% hispanic and 9% other. Population changes are reflected in the changing ethnic composition of some neighborhoods and their commercial revitalization.

The City's ability to provide housing to a growing population has become more critical with the recent surge in new residents. However, substantial progress has been made. San Franciscans can be proud of new housing production in recent years.

> "While production levels were falling in other parts of the region housing production was rising in San Francisco. Between 1980-85, San Francisco added more than 5000 units to the City's housing stock. If this number is annualized, San Francisco increased its production level by 66% above the historical record between 1970 and 1980. Put another way, San Francisco almost added as much housing in the past five years as it took the previous ten to produce."
>
> The Association of Bay Area Governments

The question remains whether the outstanding production rates of the first half of this decade will match population growth. A related question is the affordability of housing in San Francisco, now rated the most expensive in the country. By making available surplus public property, aided by mortgage bond financing, the City has been able to increase the housing stock and bring the cost of new units within the range of thousands of city residents who could not otherwise afford them. This focus on housing has had a positive impact on the local economy by creating hundreds of jobs in related industries.

The Impact on the Tax Base

Changes in the City's economic structure and the growth of its population have implications for the City's tax base and its ability to both fund and to provide services. The question must be asked: will revenues coming into the City be adequate to support the existing level of public services? The phenomenal economic growth that took place in the 70's provided the City with a growing tax base to support the growth of services. A series of state-wide laws, including Proposition 13, were passed in the late 1970's, restricting increases in the tax rate as well as the rate of increase in public expenditures. At the same time, economic growth in the City slowed and many federal support programs were cut back or eliminated. This combination of factors signalled a new era in City budgets. Growth could no longer automatically be assumed.

The Mayor asked her Fiscal Advisory Committee to look at projected City revenues and expenditures, and the Committee's response indicated that overall revenues can be expected to grow modestly. At the same time, Federal support, particularly in transit, is projected to decline and the cost of maintaining existing services is expected to rise. The economic and demographic factors described in this report bear watching as the year progresses.

To date, the City has increased some fees to meet the actual costs of services. Efforts to improve productivity have resulted in $16 million in reductions in the last fiscal year, and these efforts will be continued in FY87/88. Unnecessary service expansions have been curtailed, but every effort has been made to maintain the existing levels of service within a fiscally responsible budget. The City's budget for FY86/87 shows a minimal increase in expenditures and an actual cut of 227 positions.

While in current dollars the budget shows a significant increase from FY77/78 to 86/87, when dollars are corrected for inflation, the budget has held relatively constant, with a slight increase in 83/84. This year the budget continues to be relatively level in spite of the fact that the City population and work force have increased, both resulting in increased demands for services.

San Francisco can expect to continue providing quality public services to business and residents through improved efficiency. No major tax increases are anticipated.

HISTORY OF MAJOR TAX SOURCES

Tax Source		Property Tax	Payroll/Gross Receipts Tax	Transfer Tax	Parking Tax	Utility Users Tax	Hotel Tax	Sales Tax
1986-87		322,279,000	117,000,000	18,000,000	15,555,000	33,000,000	50,534,000	79,000,000
1985-86		288,036,000	105,150,000	16,000,000	9,491,000	23,000,000	44,000,000	74,500,000
1984-85	Budget	255,588,426	109,300,000	12,800,000	8,300,000	20,000,000	40,000,000	69,220,000
	Actual	254,303,437	95,728,265	13,873,967	8,686,563	21,770,147	44,710,904	70,804,968
1983-84	Budget	223,457,102	100,000,000	11,300,000	7,500,000	21,000,000	37,470,000	62,000,000
	Actual	224,628,561	99,075,394	12,957,065	8,301,627	17,185,737	38,322,892	64,906,879
1982-83	Budget	199,453,551	85,000,000	7,500,000	8,500,000	26,000,000	36,562,500	57,780,000
	Actual	198,743,417	99,254,948	11,850,909	7,723,424	22,489,161	35,271,530	57,781,194
1981-82	Budget	174,275,193	56,000,000	8,000,000	7,466,667	26,000,000	31,000,000	54,000,000
	Actual	172,140,216	71,378,302	7,580,031	7,094,746	27,275,994	37,681,661	57,300,599
1980-81	Budget	155,276,623	46,400,000	8,000,000	5,700,000	18,000,000	29,500,000	50,000,000
	Actual	152,294,353	59,241,329	8,338,825	4,252,321	23,342,259	32,557,659	52,946,584
1979-80	Budget	148,190,348	44,600,000	7,800,000	4,333,000	19,500,000	20,700,000	45,000,000
	Actual	148,526,642	50,389,638	7,714,690	4,929,290	20,275,614	29,828,731	55,746,811

In Conclusion

San Francisco's economy remains strong in a period of economic realignment. The City's economy continues to capture new growth while it retains basic strengths. San Francisco is expected to retain its diverse economy, with office industries, international trade, convention/tourism business, retail trade and service industries continuing to dominate, while manufacturing and construction industries decline slightly.

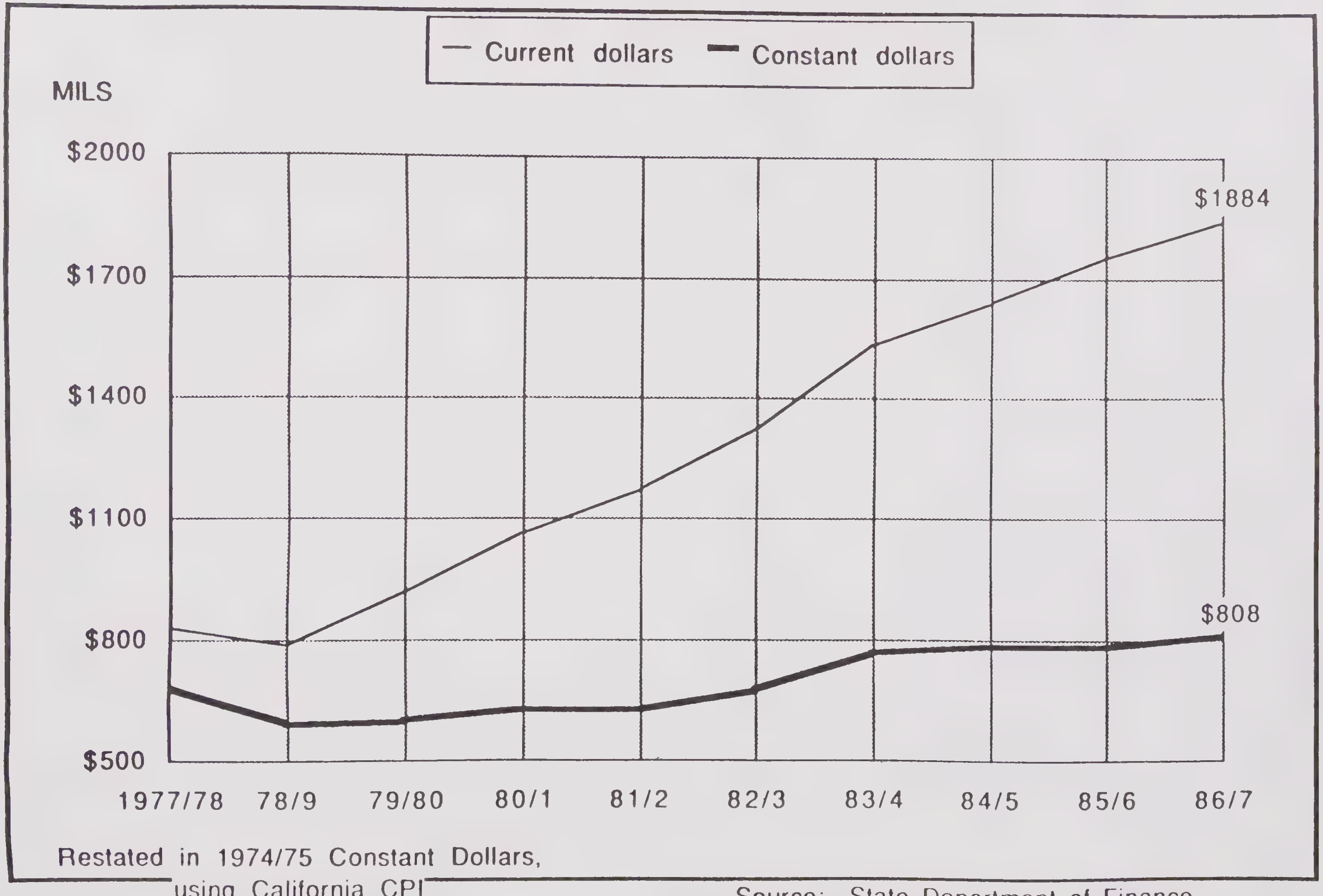
This diversity is matched by the City's population which is growing in total numbers and in the size of its households and racial mix.

A modest growth in the labor force has combined with the growth in population to increase pressure for added public services at a time when public resources are limited because of changes in the economy and potential state and federal funding reductions. The City's budget for FY 1986/87 was designed to meet the challenge of these circumstances by maintaining existing services, providing new services at no net cost increase, reducing public employment by 1%, and requiring no new taxes.

By protecting the City's tax and revenue base and continuing to improve productivity, the City will continue to retain its broad array of public services. By carefully estimating revenues and the understanding the factors that affect them, the City has tailored its expenditures. With one of the highest levels of public services of any major American city, San Francisco remains an attractive place to live and do business.

Graph II

SAN FRANCISCO BUDGETS FOR 1977-78 TO 1986-87 - Current and Constant Dollars



Source: State Department of Finance

CITY AND COUNTY OF SAN FRANCISCO
Budget as Adopted (Current Dollars, 000 omitted)

		1977/8	1978/9	1979/80	1980/1	1981/2	1982/3	1983/4	1984/5	1985/6	1986/7 (1)
General Fund Supported Departments											
Municipal Railway	$	84,902	86,762	104,850	128,235	147,592	162,463	188,173	206,740	217,593	223,392
Public Protection Departments		184,397	192,952	226,824	239,879	271,997*	294,023	331,582	363,396	387,937	396,626
Public Health-other than Hospitals		45,027	46,530	46,666	53,261	60,708	68,558	79,604	91,999	103,030	115,389
SF General and Laguna Honda Hospitals		74,787	74,315	86,694	101,417	110,517	138,534	164,326	181,658	201,381	217,939
Social Services		158,271	122,563	130,313	138,095	155,289	152,433	159,904	179,096	183,304	186,340
Public Works incl. Gas & Road Funds		30,914	29,530	32,109	28,571	30,664	37,972	38,741	42,029	48,358	49,759
Library & Support of the Arts		15,464	13,631	14,621	13,998	16,068	16,228	18,301	20,850	23,132	24,417
Recreation & Parks Department		20,719	18,036	19,236	21,678	24,118	26,401	30,398	28,321	31,319	35,261
Bond Interest & Redemption		25,610	27,029	26,887	25,928	24,155	22,518	23,839	22,446	23,851	24,591
All Other Functions		41,170	43,415	46,654	51,442	58,585	69,743	84,242	88,264	91,864	101,162
Capital Outlay/Facilities Maint					2,856	4,370	4,855	6,974	9,227	8,771	12,094
TOTAL	$	681,261	654,763	734,854	805,360	903,703	993,908	1,126,084	1,234,026	1,320,540	1,386,970
Enterprise and Special Funds (Excluding MUNI, SFGH & Laguna Honda)											
SF International Airport	$	39,231	48,531	67,238	102,093	77,798	94,473	110,260	120,472	128,039	134,687
Hetch-Hetchy Power System		44,884	18,454	23,167	32,816	49,706	60,781	61,528	57,372	84,168	76,299
SF Water Department		26,477	24,159	26,747	32,090	37,529	42,381	49,999	53,189	56,547	60,079
SF Port Authority		15,700	16,281	17,258	19,676	22,771	24,623	26,589	27,977	32,489	33,634
Yerba Buena Center					13,976	14,478	20,922	20,757	21,219	22,136	26,116
Publicity & Advertising Fund		4,000	1,900	4,000	3,000	3,600	3,600	3,659	3,795	6,176	6,922
Open Space Fund		3,104	23	2,248	4,417	5,145	6,437	7,263	7,980	9,012	10,024
Candlestick Park Fund		2,672	2,416	2,694	3,273	3,803	3,916	4,059	4,377	7,449	7,516
Cleanwater Program Fund		11,065	21,314	41,151	43,136	53,557	61,108	62,203	62,828	72,412	69,025
All other		338	85	179	291	2,930	810	8,353	17,563	19,383	21,477
TOTAL		119,649	147,471	133,163	184,682	254,768	271,317	319,051	354,670	437,811	445,779
Reserves Established in Budget Act		2,500			7,000		15,250	59,366	33,058	(2,770)	52,050
Budget as adopted	$	831,232	787,926	919,536	1,067,128	1,175,020	1,328,209	1,540,120	1,643,856	1,755,581	1,884,799

* Does not include Emergency Supplemental.

(1) 1985-86 Budget represents Mayor's Recommended Budget

5-21-85

Table 11

CITY AND COUNTY OF SAN FRANCISCO
Budget as Adopted (Constant Dollars, 000 omitted- 1974/75 Dollars)

		1977/8	1978/9	1979/80	1980/1	1981/2	1982/3	1983/4	1984/5	1985/6	1986/7 (1)
General Fund Supported Departments											
Municipal Railway	$	69,082	64,652	67,997	74,686	78,339	82,434	93,063	97,796	96,611	95,835
Public Protection Departments		150,037	143,779	147,096	139,710	144,372*	149,023	163,987	171,900	172,244	170,153
Public Health-other than Hospitals		36,637	34,673	30,263	31,021	32,223	34,748	39,369	43,519	45,745	49,502
SF General and Laguna Honda Hospitals		60,851	55,375	56,222	59,066	58,470	70,215	81,269	85,931	89,413	93,496
Social Services		128,781	91,329	84,510	80,427	82,425	77,260	79,082	84,719	81,387	79,940
Public Works incl. Gas & Road Funds		25,154	22,005	20,823	16,640	16,276	19,246	19,160	19,881	21,471	21,347
Library & Support of the Arts		12,583	10,157	9,482	8,153	8,529	8,225	9,051	9,863	10,271	10,475
Recreation & Parks Department		16,858	13,439	12,475	12,625	12,802	13,381	15,034	13,397	13,906	15,127
Bond Interest & Redemption		20,838	20,141	17,437	15,100	12,821	11,413	11,790	10,618	10,590	10,549
All Other Functions		33,499	32,351	30,255	29,960	31,096	34,349	41,663	41,752	40,788	43,399
Capital Outlay/Facilities Maint					1,662	2,320	2,461	3,449	4,365	3,894	5,188
TOTAL	$	554,320	487,901	476,560	469,050	479,673	503,755	556,916	583,740	586,320	595,011
Enterprise and Special Funds (Excluding MUNI and the hospitals)											
SF International Airport	$	31,921	36,163	43,605	59,460	41,294	47,883	54,530	56,987	56,849	57,781
Hetch-Hetchy Power System		36,521	13,751	15,024	19,112	26,383	30,806	30,429	27,138	37,371	32,732
SF Water Department		21,543	18,002	17,345	18,689	19,920	21,480	24,727	25,160	25,107	25,774
SF Port Authority		12,774	12,132	11,192	11,460	12,087	12,480	13,150	13,234	14,425	14,429
Yerba Buena Center					8,140	7,685	10,604	10,266	10,037	9,828	11,204
Publicity & Advertising Fund		3,255	1,416	2,594	1,747	1,911	1,825	1,810	1,795	2,742	2,970
Open Space Fund		2,526	17	1,458	2,572	2,731	3,263	3,592	3,775	4,001	4,300
Candlestick Park Fund		2,174	1,800	1,747	1,906	2,018	1,985	2,007	2,070	3,307	3,224
Cleanwater Program Fund		9,003	15,882	26,686	25,124	28,427	30,972	30,763	29,720	32,151	29,612
All other		275	64	116	169	1,555	411	4,131	8,308	8,606	9,214
TOTAL	$	119,992	99,227	119,767	148,379	144,011	161,709	175,406	169,919	194,388	191,239
Reserves Established in Budget Act		2,034			4,078		7,729	29,360	15,638	(1,230)	22,329
Budget as adopted	$	676,346	587,128	596,327	621,507	623,684	673,193	761,682	777,605	779,478	808,579
Restated in 1974/75 constant dollars, using California FY growth in CPI index as follows: Source of Index: State Dept of Finance		122.9	134.2	154.2	171.7	188.4	197.3	202.2	211.4	225.2	233.1

(1) 1985-86 Budget represents Mayor's Recommended Budget

5-21-85